

ABSTRACT OF THE DISCLOSURE

A method for determining the implied volatility of a swap option employs intuitive factors to arrive at a close approximation of volatility. The volatility curve is a convex shaped curve which more closely follows real market volatility than previous methods. The slope of the curve is provided by employing a premium model which allows for a correlation between rates and volatility. The convex shaped curve is arrived by assuming a lognormal distribution for the underlying volatility.